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POVERTY

Armeane Choksi, World Bank Vice President for Human Resources Development and Operations Policy, details World Bank activities in reducing poverty worldwide. A billion people around the globe live on less than a dollar a day. To reduce poverty, Mr. Choksi says the World Bank has adopted a two-part approach: the encouragement of economic growth and the improvement of social services. He also calls on poor countries to reduce their military expenditures in favour of economic and social development.

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ANNOUNCER: From United Nations Headquarters in New York, this is WORLD CHRONICLE, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's WORLD CHRONICLE.

LITTLEJOHNS: I'm Michael Littlejohns and this is WORLD CHRONICLE.

Despite decades of development and economic growth, hundreds of millions of people around the world are still living in absolute poverty. Mainly in third world countries, poor communities suffer from a wide range of poverty-based problems. This situation has caused unprecedented human suffering, especially to those most vulnerable -- women and children. What should the international community to do alleviate the plight of poverty-stricken peoples?

Our guest today has a special interest in the issue of poverty. He is Armeane Choksi, World Bank Vice President for Human Resources Development and Operations Policy. A British national, Mr. Choksi will be interviewed here at United Nations Headquarters in New York by Afsane Bassir Pour of *Le Monde*, Robert Mauthner of *The Financial Times*, and Thalif Deen of Inter Press Service. Mr. Choksi, welcome to World Chronicle.

Mr. Choksi, what determines the level of absolute poverty? In many countries, it must vary. Is there some international yardstick?

CHOKSI: There is no precise international yardstick. What the World Bank has done is make some determination about the level of people who live on less than a dollar a day. And that amounts to roughly around a billion people in the world, and that is quite a significant number of individuals.

LITTLEJOHNS: But a dollar a day is actually somewhat more than the average wage, I believe, in a country like China, which has more than a billion people right there.

CHOKSI: Well, there is fairly substantial poverty in China. But part of the problem with these sorts of measurements, when we use the US dollar, there's the issue of the exchange rate and purchasing power parity. So rather than taking this number literally, I think one has to look at it sort of in a broader context. In other words, what is the sort of standard of living of people on roughly a dollar a day. And it's a substantial number of people who live on an income level that is much less than that.

LITTLEJOHNS: Because a great deal depends on the social services that they have for nothing.

CHOKSI: Their social services that they have, certainly the access they have to government -- various different types of government services. But clearly in many countries of the world, such as, for example, India, the governments do not allocate a sufficient amount of resources to the poor. A lot of resources, in fact, as we have discovered in our various studies, go towards subsidizing universities, hospitals, which do not benefit the poor.

Also, even though the government spends substantial amounts in social services, we have to ask ourselves where is the money going? And in many countries you will find -- particularly in Latin America also -- university education is free. There are hospitals which are available to many of the well-to-do, and part of the World Bank's policy is to try and reorient public expenditures away from universities towards primary education, away from hospitals towards basic health care, and try and target policies and expenditures on programs to those who are the most vulnerable and the most poor.

POUR: To follow up, you seem to be saying that political and perhaps economic mismanagement have a lot to do with poverty in these countries. Could you tell us a little bit more? And also, what can the international community and the World Bank do to change this?

CHOKSI: Well, a lot of the economic policies are determined within a political context. And clearly, what we have seen in terms of expenditure patterns, as I mentioned earlier on, is that expenditures tend to be misdirected and misallocated. There are some countries, countries such as Brazil, for example, where you would say that it's not that Brazil does not spend enough on social programs, or Venezuela, they do spend enough on social programs, but it's misallocated. This is true of many other countries.

So point one is we would like to see a redirection of expenditures away from the rich who benefit from the social programmes towards the poor -- that's point one. Second, we would like to see specific targeting. As Mr. Littlejohns mentioned, the most vulnerable tend to be women, children, and in some parts of the world indigenous groups. And clearly one wants to see a more focused effort down there.

There's also an important macroeconomic reason for focusing. One of the things that we've learned is that resources are never unlimited. All countries, developed and developing countries, have to live within a fiscal constraint, a fiscal budget. Consequently, the question becomes how do you best allocate these fiscal resources. So that is one important reason for targeting, for focusing.

When you ask the question what is the World Bank doing about it, the World Bank has articulated in its World Development Report on Poverty essentially a two-track approach. The first track is to ensure sustainable economic growth. We have seen that in no country where there has been no growth has there been a reduction of poverty. In other words, growth is essential for poverty reduction. Now, what are the essential components of growth? And there are basically two. One is there should be clear macroeconomic stabilization. In other words, inflation has to be low. Inflation is one of the most regressive taxes, and it hurts the poor more than it hurts the rich. The rich find ways of getting around it; the poor do not. So clearly, an important element is to lower inflation and keep it down.

The second element is to put in place structural reform policies that open up the economy, both in terms of trade liberalization, financial liberalization, and deregulation of industry. Many of these policies are actually pro-poor policies, because if a country opens up its trade regime -- a developing country -- clearly what will happen is that the resources will start moving towards those activities that are labour-intensive -- that is where developing countries have a comparative advantage. In so doing, the poor and the unskilled workers enter into the labour force and they start earning higher incomes. There is, however, one issue. During periods of stabilization -- as opposed to structural reform -- during periods of stabilization, when there is a reduction in aggregate demand, there is unemployment created. And that does tend to hurt the poor. So what we also recommend is for governments to put in place a social safety net at the same time. Unfortunately, this is not what is very often done.

MAUTHNER: The developed countries in the world are often blamed for not doing enough to help the rural countries in the world. To what extent do you think that is justified? Because we often hear complaints that such aid as is given is often badly used, and could be used far more productively.

CHOKSI: I think that the most important contribution towards poverty has to come from the policies of the developing countries themselves. The developed world,

the international institutions, can make a financial contribution. But there is very little that can be done unless the policies in the developing countries themselves change. I talked earlier on about reallocation of expenditures. We have found in our studies that a small reallocation of expenditures from, say, university education to primary education yields tremendous benefits. We have found that the rates of return to primary education are very high, much higher than university education, yet if you look at the expenditure patterns of countries you will find that a significantly larger share goes towards university than towards primary.

And part of this is a political problem -- that was raised earlier on. Decisions are often made within a political context. And the sorts of policies that we're talking about can in fact be politically very difficult to implement. Because clearly you hurt the rich and the powerful. And within democracies, this becomes very difficult. That is why in our dialogue with many countries when we discuss expenditure switching of this sort, or, for example, recommending that in cases of university education or in terms of hospitals there should be some element of cost recovery. In other words, that the rich should be expected to pay. These are very difficult political changes to be made.

DEEN: Mr. Choksi, in the early 1970s the United Nations created a special category of countries called LDCs, the least developed countries, the poorest of the poor. But over the years -- there were 24 -- but over the years, the numbers have been snowballing, and last year there were six more countries that joined the LDCs. And some say this is really an indictment of the international community and international institutions, that they have not done enough for the poor. How would you respond to a charge like that?

CHOKSI: I would say that, as I mentioned earlier on, that the international community, it is true that the level of resources, the aid level, has been declining. But I think there is a view -- that I do not share -- that pouring money into countries essentially alleviates the problem. The international institutions, the developed world, have been pouring in substantial amounts of money into various countries. And there have been some legitimate criticisms about whether this money has been used effectively or not.

I think money is important: it facilitates, it lubricates. As I mentioned earlier, on the most important aspect that one wants to see is a change in the policies in the countries themselves. And clearly, the magnitude of the problem is so large, it is so large that everybody has to chip in and pull their weight together. So I would again say

that I do not accept this charge that it is an indictment on the international community. I think ultimately, my experience has indicated that no matter what outsiders say, ultimately the countries have to pull themselves up by their bootstraps and take care of the policies themselves.

POUR: What have been the results of the successes of the structural adjustment as proposed by the World Bank? Has it been a success?

CHOKSI: Yes. By and large we have shown -- we have undertaken studies within the Bank which indicate that in many cases, in most cases I would say, the reform programmes have been quite successful. When we started the structural reform programmes in 1980, we were still in a bit of a learning phase at that time. Some of our policies weren't quite as sharply defined. We did not quite understand the nature in which we should bring about change in the countries. But what we have learned -- and this is a very important lesson over time -- is that we can only facilitate policy change in countries that actually want to undertake policy change. The World Bank cannot impose conditions. We know, we've heard a lot about this. But by and large we have learned that if we try and impose conditions, the countries may agree to [them] at that point in time because they want the money, but these are policies that can be easily reversed. It is not like putting up a steel mill or a textile plant that you take down: you can implement a policy today, and when it becomes politically hot five years from now you just reverse those policies.

So clearly what we've learned is extremely important for countries to be committed to the reform process. So the approach we have taken in the last few years is very much that the countries have to agree to the reform process, they have to be committed. We do not go in if they're not ready. In fact, we have stepped back in some cases where the countries feel that politically or for whatever reason they do not wish to implement the policies. But if they're ready and committed, we support them.

And a classic example is the case of Peru, which I have been personally involved in. And the reform programme in Peru has accelerated quite phenomenally in the last years. And it is not because the World Bank has been putting pressure on Peru; in fact, the government of Peru has been moving very rapidly and very fast in this area. And I should tell you, as involved, very closely involved in the Peru programme, I had a hard time keeping up with the reform programme.

LITTLEJOHNS: The programme is World Chronicle, our guest is Armeane Choksi, World Bank Vice President for Human Resources Development and Operations Policy.

MAUTHNER: One field in which the developed world could obviously do much more is trade policy. One doesn't have the impression that much progress has been made in that field. What is your opinion on that?

CHOKSI: I would tend to agree with you there. I think the Uruguay Round is an extremely important aspect. We would like to see a rapid conclusion of the Uruguay Round. Clearly, all --

LITTLEJOHNS: This is on tariffs and trade.

CHOKSI: On tariffs and trade. Clearly, what many developing countries feel -- and with some justification, I should add -- that whilst institutions, international institutions like the World Bank are encouraging countries to open up their trade regime, the issue becomes what do we do with our exports. And if there are tariff barriers, such as the agricultural tariff barriers in Europe, that certainly does not help these developing countries. And various studies have indicated that opening up trade regimes in the developed countries would create much greater benefits to the developing countries than resource transfers.

DEEN: Mr. Choksi, I believe you said that one way of resolving some of the problems of poverty is to divert resources into human development. But despite the end of the cold war, military spending is still very high, both in developed and developing countries. At one time there was a story that the World Bank was planning to condition development aid on the reduction of military spending. Is there anything that the Bank could do to help divert resources?

CHOKSI: This is a -- you know, military spending raises issues of security concerns and raises very serious political issues. There is a question, from an overall economic point of view, a public expenditure point of view, precisely the point you've raised: in other words, that if you have limited resources, and if you put the bulk of them into military, you do not address the human resource development side. So World Bank is now beginning to look at this issue in the context of the overall expenditures. It is looking at military expenditures, it is making suggestions to various governments. Some governments are very open and receptive to the World Bank. A case in point is

Argentina, where we have been quite heavily involved with them. Others are less so. And as you would appreciate, this is a sort of tricky political issue, because if countries have -- say there are two countries that have border skirmishes, there are issues of foreign security, national security, and it becomes a little bit difficult for the World Bank to impose in any form a recommendation of this sort. What we do try to do is alert and raise the issues with the governments in a more open way than we've been doing in the past.

LITTLEJOHNS: Do you have military people at the World Bank?

CHOKSI: No, we do not.

POUR: Mr. Choksi, how has the nature of poverty, if I may say so, changed in the last, let's say, two decades? By that I mean is -- like Somalia, that's going through this famine, is this considered -- Somalia is considered one of the poorest countries because it's going through this phase? Has the nature of poverty changed in the last 20 years?

CHOKSI: I'm not sure I fully understand your question. I think that we have had famines of the sort in Somalia in various countries in various different points in time in the past. We've had them in Ethiopia, in the past we've even had them in India and Pakistan. So I don't think the nature of the poverty problem has changed. What has changed is the magnitude of the problem. And clearly, you know, some preliminary estimates that we have indicate that this problem is going to increase -- the one billion that I talked about earlier, the poor -- there are some indications over the next few years because of population growth this would raise to about 1.3 billion. So this whole issue of population growth in the poorer countries, that enters into this whole situation.

So the magnitude of the poverty problem has increased. Though I want to also emphasize that tremendous advances have already been made in some areas. You know, the average life expectancy of individuals has increased in the developing countries. More are going to school; more have access to safe water; more have access to health and nutrition. But it's one of those situations where you have to keep running faster and faster just to keep standing still.

MAUTHNER: You were talking about the barriers to trade that existed and which harmed the exports of the developing countries, but is this the total answer, just to make it easier for the exports to leave the developing countries? Quite often these

exports are very low priced. The question of pricing as well. To what extent does the answer lie in the diversification of the economies of the less developed countries?

CHOKSI: Oh, I think clearly countries that have more diversified economies -- they clearly have greater access to a larger number of markets in different countries. But when you talk of pricing, I presume the issue of price is very closely related to quality. And clearly if a product is poorly priced, or has a low price, there has to be some reflection on quality down there. Now --

MAUTHNER: I'm talking commodities more than anything else.

CHOKSI: Ah, so you're talking about commodities.

MAUTHNER: Yes.

CHOKSI: Well, I think the issue of price comes into the question of whether there are subsidies being provided to the production of commodities or not. In many countries, one is moving away from that. That is not the case in the European Common Market, for example. But diversification in different commodities, agricultural commodities, diversification into manufactured exports is clearly a big help for the countries. And we have seen, for example, the experience of east Asia, that diversification has helped tremendously. Even though there have been various barriers to trade that have been put up. Countries have, through diversification, and through quite imaginative techniques, managed to keep their exports going up. So I would agree that diversification is important. But some countries have a very hard time diversifying.

DEEN: Mr. Choksi, as you know, there is a meeting going on just now on the concepts of development aid and poverty alleviation. Does the World Bank subscribe to the view that development aid should be linked to political governance and human rights?

CHOKSI: You have touched upon an issue that is getting more and more attention internationally. The World Bank is essentially an economic institution. We make our judgements on economic grounds, not on political grounds. However, the sorts of policies and recommendations that we do make do help improve the situation related to governance. Let me give you an example. We recommend more transparency in decision making. We recommend less bureaucracy. We recommend deregulation. Clearly we have seen, in country after country, that when you've got large bureaucracies, when you've got many rules and regulations, corruption can take place.

So through the recommendations that we are making, we are opening up the system, but we are not directly involved, or if your question is do we condition our operations to human rights, the answer is no, we cannot, by our Articles of Agreement.

POUR: Could you tell us something about the link between the environment and poverty?

CHOKSI: Very complicated, very complicated issue here. Let me give you an example. In the case of the Brazilian Amazon, the view was held many years ago -- I might add by the World Bank as well, too -- that there were many poor people in the south of Brazil, and the Brazilian government decided to open up the Amazon in order to alleviate poverty. As we all know, that was a policy that didn't work. Things went very badly.

On the other hand, you have a situation such as in Africa, where there are many poor. They need fuel wood, they need firewood, they cut down trees. As they cut down trees, soil erosion takes place, desertification takes place. So what you've touched upon is an extremely complicated issue of poverty and environment. Clearly, what we have seen is that many of the environmental degradation problems that take place do take place because of the conditions of the poor.

But many of the policies that need to be put in place, to get the incentives right to provide access to commodities to the poor, are also pro-environmental policies. This applies both to environment -- the green issues as well as the brown issues.* And, you know, for example, pricing of water becomes a very important issue in terms of water conservation. Taxing of pollution becomes a very important area in terms of keeping the environment.... But clearly what we do need to do is to focus our attention on addressing the problems of the poor through issues of health, education, through agricultural in sustainable areas. And I think this was the big mistake in the case of the Amazon, where agriculture was used as a mechanism to improve the plight of the poor, yet the soils weren't appropriate and led to tremendous devastation of the forests.

MAUTHNER: You've talked about the nefarious effects of some of the trade policies of the European Community, for instance, but isn't it true that the European Community is actually helping quite a large number of countries in Africa and the

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* Standard environmental language, "green" referring to environmental degradation of resources and "brown" to industrial pollution.

Caribbean and elsewhere, which were the former colonies of its members, which are now independent, but through the trade advantages it offers these countries and through the aid policies it carries out in favour of those countries, it is actually helping to alleviate poverty in that country?

CHOKSI: I agree with you.

MAUTHNER: In those countries. But on the other hand, it doesn't benefit other countries, it goes to the disadvantage of other countries in the developing world. What can be done about that?

CHOKSI: Sorry?

MAUTHNER: What can be done about that?

CHOKSI: [*laughs*] I think that's a question you should address to the governments of the European Community. But I agree with you entirely, yes, the European Community has been helping these countries with various aid programmes. But as I mentioned earlier on -- I don't mean to single out the European Community by any means -- you know, many developed countries have various tariffs and trade barriers. And clearly lowering those trade barriers can be tremendous for the exports of these countries. And I would argue that is a much better form of assisting the developing countries than actually transferring dollars to the countries themselves.

LITTLEJOHNS: Mr. Choksi, that's all the time we have. Thank you for joining us on this edition of World Chronicle.

Our guest has been Armeane Choksi, World Bank Vice President for Human Resources Development and Operations Policy. He was interviewed here at United Nations Headquarters in New York by Afsane Bassir Pour of *Le Monde*, Robert Mauthner of *The Financial Times*, and Thalif Deen of Inter Press Service.

I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of World Chronicle.

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